

KEOSAUQUA MUNICIPAL LIGHT AND POWER  
A COMPONENT UNIT OF THE CITY OF KEOSAUQUA, IOWA  
KEOSAUQUA, IOWA

INDEPENDENT AUDITOR'S REPORT  
BASIC FINANCIAL STATEMENTS  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

JUNE 30, 2011

KEOSAUQUA MUNICIPAL LIGHT AND POWER  
A COMPONENT UNIT OF THE CITY OF KEOSAUQUA, IOWA

TABLE OF CONTENTS  
JUNE 30, 2011

	<u>PAGE</u>
OFFICIALS	1
INDEPENDENT AUDITOR'S REPORT	2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-5
	<u>EXHIBIT</u>
BASIC FINANCIAL STATEMENTS:	
STATEMENT OF NET ASSETS	A                      6
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS	B                      7
STATEMENT OF CASH FLOWS	C                      8
NOTES TO FINANCIAL STATEMENTS	9-14
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	15-16
SCHEDULE OF FINDINGS	17

KEOSAUQUA MUNICIPAL LIGHT AND POWER  
A COMPONENT UNIT OF THE CITY OF KEOSAUQUA, IOWA

OFFICIALS  
JUNE 30, 2011

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
George Manning	Chairman	December 31, 2014
Sam Polonsky	Member	December 31, 2016
Rusty Lyons	Member	December 31, 2012

## INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Keosauqua Municipal Light and Power  
A Component Unit of the City of Keosauqua, Iowa  
Keosauqua, Iowa

We have audited the accompanying financial statements of Keosauqua Municipal Light and Power, a component unit of the City of Keosauqua, Iowa, as of and for the year ended June 30, 2011. These financial statements are the responsibility of Keosauqua Municipal Light and Power, a component unit of the City of Keosauqua, Iowa's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Keosauqua Municipal Light and Power, a component unit of the City of Keosauqua, Iowa at June 30, 2011, and the changes in its financial position and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated December 29, 2011 on our consideration of the Utility's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 3 through 5 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

ANDERSON, LARKIN & CO. P.C.

Ottumwa, Iowa  
December 29, 2011

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Keosauqua Municipal Light and Power, a component unit of the City of Keosauqua, Iowa, provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the Utility's financial statements, which follow.

### **FINANCIAL HIGHLIGHTS**

The Utility's operating revenues increased 9.8% or \$127,456, from fiscal year 2010 to fiscal year 2011. Increases in revenue from the sale of electricity accounted for the majority of this increase.

The Utility's operating expenses increased 5.0% or \$62,909, from fiscal year 2010 to fiscal year 2011. This increase in operating expenses is due primarily to an increase in the cost of purchased power.

The Utility's net assets increased 3.9% or \$107,730, from fiscal year 2010 to fiscal year 2011.

### **USING THIS ANNUAL REPORT**

Keosauqua Municipal Light and Power, a component unit of the City of Keosauqua, Iowa, operates as a single Enterprise Fund and presents its financial statements using the economic resources measurement focus and accrual basis of accounting which is the same measurement focus and basis of accounting employed by private sector business enterprises. This discussion and analysis is intended to serve as an introduction to Keosauqua Municipal Light and Power, a component unit of the City of Keosauqua, Iowa's basic financial statements. The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Utility's financial activities.

The Statement of Net Assets presents information on the Utility's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Utility is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Assets is the basic statement of activities for proprietary funds. This statement presents information on the Utility's operating revenues and expenses, non-operating revenues and expenses and whether the Utility's financial position has improved or deteriorated as a result of the year's activities.

The Statement of Cash Flows presents the change in the Utility's cash and cash equivalents during the year. This information can assist the user of the report in determining how the Utility financed its activities and how it met its cash requirements.

The Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

### **FINANCIAL ANALYSIS OF THE UTILITY**

#### **Statement of Net Assets**

As noted earlier, net assets may serve over time as a useful indicator of the Utility's financial position. The Utility's net assets at June 30, 2011 total \$2,862,982. This compares to \$2,755,252 as of June 30, 2010. A summary of the Utility's net assets as of June 30, 2011 and 2010 is presented below.

# STATEMENT OF NET ASSETS

	2011	June 30, 2010
Current assets	\$ 1,410,788	\$ 1,346,044
Capital assets at cost, less accumulated depreciation	1,528,736	1,513,163
Other assets	87,943	86,489
Total assets	3,027,467	2,945,696
Current liabilities	164,485	190,444
Invested in capital assets	1,528,736	1,513,163
Unrestricted	1,334,246	1,242,089
Total net assets	\$ 2,862,982	\$ 2,755,252

46.6% of the Utility's net assets are unrestricted and can be used to meet the Utility's obligations as they come due.

## Statements of Revenues, Expenses and Changes in Net Assets

Operating revenues are received from the sale of electricity to the residents and business owners of the City of Keosauqua. Operating expenses are expenses paid to run the Utility. Non-operating revenues and expenses include interest income. The utilization of capital assets is reflected in the financial statements as depreciation, which allocates the cost of an asset over its expected useful life. A summary of revenues, expenses and changes in net assets for the years ended June 30, 2011 and 2010 is presented below:

	REVENUES, EXPENSES AND CHANGES IN NET ASSETS	
	Year ended June 30,	
	2011	2010
Operating revenue:		
Sale of electricity	\$ 1,379,947	\$ 1,276,392
Late payment charges	1,633	1,573
Miscellaneous income	47,635	23,794
Total operating revenue	1,429,215	1,301,759
Operating expenses:		
Purchase of power	989,009	944,365
Salaries	103,767	101,164
Payroll taxes	7,936	7,832
IPERS	7,210	6,808
Group insurance	44,822	35,057
Employee education	-	706
Line maintenance	25,074	27,183
Meter expense	2,641	2,495
Property and liability insurance	9,956	9,146
Truck expenses	3,345	3,267
Utilities	4,882	4,063
Repairs and maintenance	704	4,561
Bookkeeping	11,446	12,518
Legal and accounting	7,835	6,925
Office supplies	6,208	4,741
Trustee fees	408	408
Association dues and assessments	7,490	6,355
Miscellaneous	2,089	3,239
Community betterment	2,270	2,215
Depreciation	85,808	75,363
Energy efficiency	7,963	9,543
Total operating expenses	1,330,863	1,267,954
Operating income	98,352	33,805
Non-operating revenues:		
Interest income	9,378	12,935
Change in net assets	107,730	46,740
Net assets - Beginning of year	2,755,252	2,708,512
Net assets - End of year	\$ 2,862,982	\$ 2,755,252

The Statement of Revenues, Expenses and Changes in Net Assets reflects a positive year with an increase in the net assets at the end of the fiscal year.

In fiscal year 2011, operating revenues increased 9.8% or \$127,456, primarily due to a increase in the amount of electricity sold to customers. Operating expenses increased 5.0% or \$62,909, primarily due to an increase in the cost of power purchased.

### **Statement of Cash Flows**

The Statement of Cash Flows presents information related to cash inflows and outflows, summarized by operating, capital and related financing and investing activities. Cash provided by operating activities includes the sale of electricity and other receipts reduced by payments to suppliers and employees. Cash used in capital and related financing activities includes the purchase of capital assets. Cash provided by investing activities includes interest income and the purchase of certificates of deposit.

### **CAPITAL ASSETS**

At June 30, 2011, the Utility had \$1,528,736 invested in capital assets, net of accumulated depreciation of \$1,010,167. Depreciation charges totaled \$85,808 for fiscal year 2011. More detailed information about the Utility's capital assets is presented in Note 4 to the Financial Statements.

### **ECONOMIC FACTORS**

Keosauqua Municipal Light and Power, a component unit of the City of Keosauqua, Iowa, continued to improve its financial position during the current fiscal year. However, the current condition of the economy in the State continues to be a concern for Utility officials. Some of the realities that may potentially become challenges for the Utility to meet are:

The Utility's distribution system requires constant maintenance and upkeep.

Technology continues to expand and current technology becomes outdated presenting an on-going challenge to maintain up to date technology at a reasonable cost.

The Utility anticipates the current fiscal year will be much like the last and we will maintain a close watch over resources to maintain our ability to react to unknown issues.

### **CONTACTING THE UTILITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the Utility's finances and to show the Utility's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Keosauqua Municipal Light and Power, P.O. Box 216, Keosauqua, Iowa.

KEOSAUQUA MUNICIPAL LIGHT AND POWER  
A COMPONENT UNIT OF THE CITY OF KEOSAUQUA, IOWA

STATEMENT OF NET ASSETS  
JUNE 30, 2011

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$ 1,143,753
Certificates of deposit	128,411
Accounts receivable	133,712
Interest receivable	491
Prepaid insurance	4,421
Total current assets	<u>1,410,788</u>

PROPERTY AND EQUIPMENT:

Land	3,423
Buildings	80,004
Distribution system	2,270,979
Equipment and vehicles	184,497
Total	2,538,903
Less accumulated depreciation	1,010,167
Book value of property and equipment	<u>1,528,736</u>

OTHER ASSETS:

Certificates of deposit	62,943
Notes receivable	25,000
Total other assets	<u>87,943</u>

TOTAL ASSETS      3,027,467

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Accounts payable	140,390
Accrued payroll taxes	4,705
Accrued sales tax	5,259
Customer meter deposits	9,319
Compensated absences	4,812

TOTAL LIABILITIES      164,485

NET ASSETS:

Invested in capital assets	1,528,736
Unrestricted	1,334,246

TOTAL NET ASSETS      \$ 2,862,982



KEOSAUQUA MUNICIPAL LIGHT AND POWER  
A COMPONENT UNIT OF THE CITY OF KEOSAUQUA, IOWA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
YEAR ENDED JUNE 30, 2011

OPERATING REVENUE:

Sale of electricity	\$ 1,379,947
Late payment charges	1,633
Miscellaneous income	47,635
Total operating revenue	<u>1,429,215</u>

OPERATING EXPENSES:

Purchase of power	989,009
Salaries	103,767
Social security and medicare	7,936
IPERS	7,210
Group insurance	44,822
Line maintenance	25,074
Meter expense	2,641
Property and liability insurance	9,956
Truck expenses	3,345
Utilities	4,882
Repairs and maintenance	704
Bookkeeping	11,446
Legal and accounting	7,835
Office supplies	6,208
Trustee fees	408
Association dues and assessments	7,490
Miscellaneous	2,089
Community betterment	2,270
Depreciation	85,808
Energy efficiency	7,963
Total operating expenses	<u>1,330,863</u>

OPERATING INCOME 98,352

NONOPERATING REVENUE:

Interest income	<u>9,378</u>
-----------------	--------------

CHANGE IN NET ASSETS 107,730

NET ASSETS - BEGINNING OF YEAR 2,755,252

NET ASSETS - END OF YEAR \$ 2,862,982

KEOSAUQUA MUNICIPAL LIGHT AND POWER  
A COMPONENT UNIT OF THE CITY OF KEOSAUQUA, IOWA

STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from customers	\$ 1,383,525
Cash received from other operating receipts	47,635
Cash paid to suppliers for goods and services	(1,110,356)
Cash paid for personal services	<u>(160,481)</u>

NET CASH PROVIDED BY OPERATING ACTIVITIES 160,323

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Purchase of property and equipment	<u>(101,381)</u>
------------------------------------	------------------

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest on investments	9,763
Proceeds from certificates of deposit	122,630
Purchase of certificates of deposit	<u>(4,101)</u>

NET CASH PROVIDED BY INVESTING ACTIVITIES 128,292

NET INCREASE IN CASH AND CASH EQUIVALENTS 187,234

CASH AND CASH EQUIVALENTS - Beginning of year 956,519

CASH AND CASH EQUIVALENTS - End of year \$ 1,143,753

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED  
BY OPERATING ACTIVITIES:

Operating income	\$ 98,352
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	85,808
Change in assets and liabilities:	
Decrease in accounts receivable	2,348
Increase in prepaid insurance	(226)
Decrease in accounts payable	(28,575)
Increase in accrued payroll taxes	3,226
Decrease in accrued sales tax	(235)
Decrease in customer meter deposits	(403)
Increase in compensated absences	<u>28</u>
Total adjustments	<u>61,971</u>

NET CASH PROVIDED BY OPERATING ACTIVITIES \$ 160,323

KEOSAUQUA MUNICIPAL LIGHT AND POWER  
A COMPONENT UNIT OF THE CITY OF KEOSAUQUA, IOWA

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Keosauqua Municipal Light and Power, a component unit of the City of Keosauqua, Iowa, is an electrical utility plant located in the City of Keosauqua, Iowa. The Utility purchases all of its power from the Southern Iowa Electric Co-op. It sells its services to the citizens, businesses and the City of Keosauqua, Iowa.

The financial statements of the Utility are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

Reporting Entity

For financial reporting purposes, Keosauqua Municipal Light and Power, a component unit of the City of Keosauqua, Iowa, has included all funds, organizations, agencies, boards, commissions and authorities. The Utility has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Utility are such that exclusion would cause the Utility's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Utility to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Utility. Keosauqua Municipal Light and Power, a component unit of the City of Keosauqua, Iowa, has no component units which meet the Governmental Accounting Standards Board criteria.

Keosauqua Municipal Light and Power is presented as a Component Unit in the City of Keosauqua, Iowa's financial statements. The Utility is a legally separate entity from the City, but is financially accountable to the City. The Utility is governed by a three-member Board appointed by the City Council and the Utility's operating budget is subject to the approval of the City Council.

Basis of Presentation

The accounts of Keosauqua Municipal Light and Power, a component unit of the City of Keosauqua, Iowa, are organized as an Enterprise Fund. Enterprise Funds are used to account for operations (a) financed and operated in a manner similar to private business enterprises, where the intent of the governing body is the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Measurement Focus and Basis of Accounting

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

The Utility applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

KEOSAUQUA MUNICIPAL LIGHT AND POWER  
A COMPONENT UNIT OF THE CITY OF KEOSAUQUA, IOWA

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus and Basis of Accounting (Continued)

The Utility distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Utility's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Assets, Liabilities and Net Investments

The following accounting policies are followed in preparing the Statement of Net Assets:

Cash, Investments and Cash Equivalents - The Utility considers all short-term investments that are highly liquid to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than six months. Cash investments not meeting the definition of cash equivalents at June 30, 2011 include certificates of deposit of \$191,354.

Valuation of Investments

The Utility adopted the provisions of FASB "Fair Value Measurements" effective July 1, 2008. Under FASB, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date.

In determining fair value, the Utility uses various valuation approaches. FASB establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Utility. Unobservable inputs reflect the Utility's assumption about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Utility has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 securities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.

Level 2 – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The Utility only holds Level 1 securities.

KEOSAUQUA MUNICIPAL LIGHT AND POWER  
A COMPONENT UNIT OF THE CITY OF KEOSAUQUA, IOWA

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable – The Utility grants credit to customers, substantially all of whom are located in Keosauqua, Iowa. The risk of loss on the accounts receivable is the balance due at the time of default. Accounts receivable are considered past due after 30 days and are charged off when management determines the account is uncollectible. Bad debts are charged to operations in the year in which the account is determined uncollectible. If the reserve method of accounting for uncollectible accounts was used, it would not have a material effect on the financial statements.

Capital Assets - Capital assets are accounted for at historical cost. Depreciation of all exhaustible capital assets is charged as an expense against operations. The cost of repair and maintenance is charged to expense, while the cost of renewals or substantial betterments is capitalized. The cost and accumulated depreciation of assets disposed of are deleted, with any gain or loss recorded in current operations.

Reportable capital assets are defined by the Utility as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of one year.

<u>Asset Class</u>	<u>Amount</u>
Buildings	\$ 2,500
Distribution system	2,500
Equipment and vehicles	2,500

Capital assets of the Utility are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	15-25
Distribution system	30-40
Equipment and vehicles	5-10

Compensated Absences – Utility employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death or retirement. The Utility's liability for accumulated vacation has been computed based on rates of pay in effect at June 30, 2011.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Accordingly, actual results could differ from those estimates.

NOTE 2 – CASH AND INVESTMENTS

Keosauqua Municipal Light and Power, a component unit of the City of Keosauqua, Iowa, had deposits in banks at June 30, 2011 that were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This Chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

KEOSAUQUA MUNICIPAL LIGHT AND POWER  
A COMPONENT UNIT OF THE CITY OF KEOSAUQUA, IOWA

NOTES TO FINANCIAL STATEMENTS

NOTE 2 – CASH AND INVESTMENTS (Continued)

The Municipal Utility is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Municipal Utility Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest rate risk – The Utility's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the utility.

NOTE 3 – FAIR VALUE MEASUREMENTS

The Utility's investments recorded at fair value have been categorized based upon a fair value hierarchy in accordance with GASB. See Note 1 for a discussion of the Utility's policies.

The Utility's investments measured at fair value as a June 30, 2011 are as follows:

	<u>Level 1</u>
Certificates of Deposit	\$ <u>191,354</u>

NOTE 4 - CAPITAL ASSETS

A summary of capital assets at June 30, 2011 is as follows:

	<u>Balance June 30, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2011</u>
Capital assets, not being depreciated:				
Land	\$ <u>3,423</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>3,423</u>
Capital assets, being depreciated:				
Buildings	80,004	-	-	80,004
Distribution system	2,169,598	101,381	-	2,270,979
Equipment and vehicles	<u>184,497</u>	<u>-</u>	<u>-</u>	<u>184,497</u>
Total capital assets being depreciated	<u>2,434,099</u>	<u>101,381</u>	<u>-</u>	<u>2,535,480</u>
Less accumulated depreciation for:				
Buildings	66,502	1,782	-	68,284
Distribution system	736,225	67,601	-	803,826
Equipment and vehicles	<u>121,632</u>	<u>16,425</u>	<u>-</u>	<u>138,057</u>
Total accumulated depreciation	<u>924,359</u>	<u>85,808</u>	<u>-</u>	<u>1,010,167</u>
Total capital assets being depreciated, net	<u>1,509,740</u>	<u>15,573</u>	<u>-</u>	<u>1,525,313</u>
Total capital assets, net	\$ <u>1,513,163</u>	\$ <u>15,573</u>	\$ <u>-</u>	\$ <u>1,528,736</u>

KEOSAUQUA MUNICIPAL LIGHT AND POWER  
A COMPONENT UNIT OF THE CITY OF KEOSAUQUA, IOWA

NOTES TO FINANCIAL STATEMENTS

NOTE 5 – PENSION AND RETIREMENT BENEFITS

The Municipal Utility contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 4.50% of their annual covered salary and the Utility is required to contribute 6.95% of covered salary. Contribution requirements are established by state statute. The Utility's contributions to IPERS for the years ended June 30, 2011, 2010 and 2009 were \$7,210, \$6,808, and \$6,261, respectively, equal to the required contributions for each year.

NOTE 6 – RELATED PARTY TRANSACTIONS

The Utility sells electricity to and purchases bookkeeping services and water from the City of Keosauqua. The following is a summary of the transactions and balances as of and for the year ended June 30, 2011:

Electricity paid by the City of Keosauqua to the Utility	\$ 16,603
Accounts receivable from the City of Keosauqua	1,219
Bookkeeping expense paid by the Utility to the City of Keosauqua	11,446
Water fees paid by the Utility to the City of Keosauqua	489
Accounts payable due to the City of Keosauqua	822

NOTE 7 – RISK MANAGEMENT

The Utility is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 645 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 150 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The Utility's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The Utility's contributions to the Pool for the year ended June 30, 2011 were \$5,894.

KEOSAUQUA MUNICIPAL LIGHT AND POWER  
A COMPONENT UNIT OF THE CITY OF KEOSAUQUA, IOWA

NOTES TO FINANCIAL STATEMENTS

NOTE 7 – RISK MANAGEMENT (Continued)

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$12,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by the Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. The Utility does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2011, no liability has been recorded in the Utility's financial statements. As of June 30, 2011, settled claims have not exceeded the risk pool or reinsurance coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The Utility also carries commercial insurance purchased from other insurers for coverage associated with workman's compensation and employee blanket bond. The Utility assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 8 – MAJOR CUSTOMERS

Sales to four major customers were \$515,853 for the year ended June 30, 2011, representing 37.4% of the total sales for the year. At June 30, 2011, amounts due from these customers included in accounts receivable were \$48,899.

NOTE 9 – MAJOR SUPPLIERS

For the year ended June 30, 2011, the Utility purchased power from one supplier totaling \$989,009. At June 30, 2011, amounts due to this vendor included in accounts payable were \$87,398.

NOTE 10 – EVALUATION OF SUBSEQUENT EVENTS

The utility has evaluated subsequent events through December 29, 2011, the date which the financial statements were available to be issued.

NOTE 11 – RECLASSIFICATIONS

Certain amounts for the year ended June 30, 2010 have been reclassified to conform to June 30, 2011 presentation.



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees  
Keosauqua Municipal Light and Power  
A Component Unit of the City of Keosauqua, Iowa  
Keosauqua, Iowa

We have audited the accompanying financial statements of Keosauqua Municipal Light and Power, a component unit of the City of Keosauqua, Iowa as of and for the year ended June 30, 2011, and have issued our report thereon dated December 29, 2011. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Utility's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Utility's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Utility's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weakness have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described the accompanying Schedule of Findings as item I-A-11 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Utility's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Utility's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utility. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Keosauqua Municipal Light and Power, a component unit of the City of Keosauqua, Iowa's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Utility's responses, we did not audit the Utility's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials and employees of the Utility and other parties to whom the Utility may report and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Keosauqua Municipal Light and Power, a component unit of the City of Keosauqua, Iowa, during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

ANDERSON, LARKIN & CO. P.C.

Ottumwa, Iowa  
December 29, 2011

KEOSAUQUA MUNICIPAL LIGHT AND POWER  
A COMPONENT UNIT OF THE CITY OF KEOSAUQUA, IOWA

SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2011

Part I: Findings Related to the Financial Statements

Significant Deficiencies:

- I-A-11 Segregation of Duties - An important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of cash receipts to the cash receipts journal are all done by the same person.

Recommendation - We realize that segregation of duties is difficult with a limited number of office employees. However, the Utility should review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response - This is a continuing problem for us, but an entity the size of our Utility does not have the finances to segregate the duties as recommended. The Board of Trustees will continue to monitor operations on a monthly basis.

Conclusion - Response accepted.

Instances of Non-Compliance:

No matters were noted.

Part II: Other Findings Related to Statutory Reporting

- II-A-11 Questionable Expenses - No expenses that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- II-B-11 Travel Expense - No expenditures of money for travel expenses of spouses of Utility officials or employees were noted.
- II-C-11 Business Transactions - No business transactions between the Utility and Utility officials or employees were noted.
- II-D-11 Bond Coverage - Surety bond coverage of Utility officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- II-E-11 Trustee Minutes - No transactions were found that we believe should have been approved in the Trustee minutes but were not.
- II-F-11 Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utility's investment policy were noted.